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Subject: Official CAGW Comments
Date Sent: 12/29/2005 09:56:03 CST
Date Received: 12/29/2005 09:58:57 CST

In response to the June 17, 2005 "Request for Public Comments to be Used in Developing USDA Recommendations for the 2007 Farm Bill, the following are official comments of Citizens Against Government Waste (CAGW), the nation's largest (more than 1.2 million members and supporters) nonpartisan, nonprofit organization dedicated to eliminating waste, fraud, abuse, and mismanagement in government:

The federal government's dairy policy includes milk marketing orders, the Dairy Price Support Program (DPSP), the Milk Income Loss Contract (MILC) program, and the Dairy Export Incentive Program (DEIP) and included interstate dairy compacts for a brief period. CAGW has long championed reform of dairy programs, as evidenced by a special Through the Looking Glass report, published in 1998, titled "Milk Marketing Order Reform: Watered Down or Real?" That report argued that "the federal dairy program is a tangled web of mind-numbing pricing schemes which have metastasized into a more layered, incomprehensible, intrusive labyrinth increasingly divorced from economic realities."

Other than the addition of one more layer, the MILC program, established by the 2002 Farm Bill, to the convoluted batch of programs that constitutes "federal dairy policy," the most significant change that emerged from the federal milk marketing order reform process, the subject of CAGW's special report, was merely a reduction of the number of federal milk market order regions from 31 to 11. This is akin to reshuffling the deck chairs on the Titanic.

CAGW welcomed the 2004 release of a United States Department of Agriculture (USDA) report to Congress, "Economic Effects of U.S. Dairy Policy and Alternative Approaches to Milk Pricing." This report examined the effects of national dairy policy, including federal milk marketing orders, the DPSP, the MILC program, interstate dairy compacts, and the DEIP. While the report did not provide any recommendations for reform of the dairy programs, it did reinforce many of the arguments put forth in CAGW's 1998 report.

USDA's report pointed out that "many of the individual programs that make up U.S. dairy policy were originally designed to deal with the industry's structure in the 1930's, when most milk production (60 percent) was destined for fluid consumption, markets were predominantly local, and many dairy enterprises were part of diversified farming operations." The USDA report further stated that at the present time "the largest share of milk is used for manufactured dairy products (especially cheese) rather than fluid milk, markets for manufactured dairy products are national in scope, and dairy farms are highly specialized, many of them large-scale industrial-type farms."

Reminiscent of arguments put forth in CAGW's report, USDA's report stated that "advances in transportation, distribution, communication, and information technology have continued to expand the scope of dairy markets, lead to greater market integration, and change the nature of dairy markets from local markets for primarily fluid milk to national markets where manufacturing milk is dominant."

The report further demonstrated that growth in productivity has meant that fewer cows are able to produce more milk. Coupled with reduced production costs, this has led to larger, more specialized dairy farms to serve the market. The report also pointed out that "advances in transportation and storage technologies have reduced marketing problems associated with perishability."

USDA's analysis demonstrated that current federal dairy programs have only a modest effect on markets and "are limited in their ability to change the long-term viability of dairy farms." The report concluded that other forces, such as technology, changing consumer demand, and changes in the marketing and processing sectors, are more important to the future of the dairy industry.

Instead of helping dairy farmers, the diverse programs often have countervailing effects. As an example of this phenomenon, the USDA report observed that the MILC program, which increases dairy farmer income through production-linked payments, "expands production and thereby reduces the price of milk." The USDA report argued that in the absence of the MILC program, the remaining dairy programs would "raise milk prices by 4 percent (compared to about 1 percent with MILC), on average, over 5 years." Therefore, the MILC program encourages more milk production than would be the case without the program and keeps farm prices lower for a longer period of time.

The DPSP, first authorized by the Agricultural Adjustment Act of 1933, creates a price floor for dairy farmers and has been used by USDA in recent years to buy up the extra milk production caused by the MILC payments. In effect, the government is paying twice for the same milk. Together, these two programs cost taxpayers at least $1 billion annually.

The federal milk marketing orders, established in the Agricultural Marketing Agreement Act of 1937, regulate the overall price to be paid for milk in 11 different regions. In addition to establishing a formula for a minimum national price for milk, the marketing orders impose higher prices (a "differential") for fluid milk based upon how far from Eau Claire, Wisconsin it is produced. Supposedly, this is designed to encourage the movement of milk from so-called "milk-surplus areas" into the so-called "milk-deficit areas." The government also establishes different prices for the milk based upon its end use. The federal milk marketing orders impose a $1.5 billion annual milk tax on consumers, which has the greatest impact on low-income families with young children.

Some in the dairy industry have proposed the creation of another subsidy program, the National Dairy Equity Act (NDEA). Modeled after the expired Northeast Interstate Dairy Compact, the NDEA would force states to join regional dairy compacts. Just like the failed Northeast compact, the NDEA would subsidize over-production of milk, while simultaneously dampening demand with higher retail prices. The NDEA would cost taxpayers another $2 billion annually.

USDA's report concluded that "extending compacts across the entire country . . . would induce increased milk production that would spill over to the manufacturing milk market, driving down the price of milk for manufacturing use even further," and that a nationwide compact "is unlikely to increase producer returns without requiring supply control measures."

While the bizarre multi-layered "federal dairy policy" is the main obstacle to the U.S. dairy industry from becoming competitive in international markets, the DEIP program ironically is supposedly designed to "develop export markets for dairy products where U.S. dairy products are not competitive because of the presence of subsidized exports from other countries." Under the program, USDA pays cash bonuses to exporters, costing taxpayers more than $30 million in the most recent fiscal year.

The USDA report also pointed out that import restrictions which isolate the U.S. dairy sector from international markets "reduce overall quantity demanded by keeping U.S. prices above world prices, but raise the quantity demanded of domestic dairy products by raising the price of imports to consumers." Some dairy farmer groups and their allies in Congress, contending imports of milk protein concentrates, casein, and caseinates are displacing domestic milk used for cheesemaking and depressing milk prices, have pushed for further restrictions on imports of these products. However, the USDA report acknowledged that the milk price support program creates a disincentive to produce those products in the United States, making it necessary to import them.

There is a clear need for massive reform of federal dairy policy in the 2007 Farm Bill. In today's increasingly complex and uncertain environment, a forward-looking dairy policy would give producers greater access to risk management tools, such as forward contracting, to help manage the financial risks inherent in dairy farming. If the federal government's goal is to help individuals build a viable dairy operation that could be passed down to future generations, it would be far more useful and progressive to provide producers the tools to self-manage risk rather than rely on wasteful and counterproductive government handouts.